



ANGOLA RESEARCH NOTE

The Labours of Hercules (contd.)

As readers know, we have been rooting for JLo, as he gets to work on those Augean stables¹. However, he clearly has his work cut out for him ...

1) Last month's reported **CPI print of 22.72%, down from December's 23.67%, strains credulity**, given the level of Angola's import-dependency and the Kwanza's 19% depreciation during the period in question.

As will be recalled, the **15% currency adjustment in Jan. 2015 drove the monthly inflation rate to 3.33%, from 1.75%** the previous month. Yet we are being asked to believe that last month's 19% devaluation pushed the same rate up by no more than 27 b.p.²

2) Unveiled with great fanfare, the so-called flexible exchange-rate regime has turned out to be no more than **a heavily managed float**, with the Kwanza's potential depreciation at each FX auction now capped at an arbitrary 2%. By definition, this approach maintains the Kwanza's over-valuation³ and **obliges the BNA to continue rationing of the supply of FX**, potentially *sine die*.

3) At the same time, the failure to clear the market **undermines the recently enacted exchange-control amnesty**, through which the authorities are hoping to encourage the repatriation of as much as USD 10 billion⁴.

For Angolan nationals, holding 'informally transferred' financial assets offshore, the Kwanza's continued over-valuation, and the prospect of a significant correction in the short/medium term, provide **little incentive to liquidate and repatriate the proceeds**⁵.

4) Although the finance ministry is yet to upload the final 2018 budget to its website, the excerpts published in the local press underscore the **critical level that Angola's debt-service obligations have now reached**. Payments of interest and principal are scheduled at €21,500 million⁶ during the current fiscal year, with the Treasury planning to raise a total of €23,500 million over the same period.

Meanwhile, **cumulative principal amortizations for the years 2019-22 amount to a staggering €30 billion**⁷. No wonder finance minister Mangureira has resorted to the term "**unsustainable**" to describe Angola's debt position.

To surmount these challenges, **our 'hero' will clearly need to summon the wit, energy and determination of his mythical forbear**.

¹ Attached overleaf is a copy of our Dec. 13 note on the subject.

² I.e. from 1.20% in December, to 1.47%.

³ Currently quoted at USD=Kz 212.31, as against the parallel market rate of Kz 430. Achieving a convergence of the two rates was the stated objective of the 'flexible' exchange-rate regime.

⁴ The stock of financial assets held abroad by Angolan nationals is on the order of USD 50 billion. The authorities are clearly hoping to emulate the spectacular success of S. Africa's Ex-Con Amnesty (2003), that netted the equivalent of USD 9.5 billion. This was close to 100% of the total volume of offshore financial assets then held by S. African nationals, of which the local authorities had estimated that no more than 7% would be repatriated under the Amnesty.

⁵ Meanwhile, real Kwanza interest rates at -5% represent an equally powerful deterrent.

⁶ I.e. 153% of projected fiscal revenues and approx. 22% of GDP. Reportedly, foreign debt represents 35% of this total.

⁷ I.e. 2019, € 8.4 billion; 2020, €9.8 billion; 2021, €5.7 billion; 2022, €6.5 billion.

December 13, 2017

Tackling the 'Augean stables'

Not resting on his laurels after last month's shake-up at SONANGOL, **João Lourenço has now dispelled any residual doubts that he is a man on a clean-up mission.** Today's demand for Angolan entities and individuals to "repatriate wealth they are holding offshore" was notable - as much for its content as the context.

1) His admonition could not have been more blunt. Those complying with the repatriation demand within an as-yet unspecified grace period will face **"no questions ... or judicial proceedings."**

Conversely, any funds still held abroad after the relevant deadline will be considered "the property of the Republic and people of Angola". As such **the State will "work with the authorities of the host countries to ensure that said assets are returned."**

2) J-Lo was speaking in his capacity as deputy president of the ruling party – which is still headed by the octogenarian José Eduardo dos Santos – at a Party seminar on '*The MPLA and the challenge of corruption*'. As if to underscore the fact that his remarks were targeted at dos Santos' inner circle – including his children – he then added a decidedly pointed 'disclaimer', viz.:

"The fight against corruption should not be confused with a witch-hunt against the rich or families that are well-off."

3) Evidently, it remains to be seen how expeditiously the new President is able to persuade the relevant jurisdictions to order a freeze on the assets in question¹, let alone their confiscation and eventual repatriation. Nevertheless, **today's move represents a resounding shot across the bow of the MPLA's nomenklatura** and demonstrates a determination to follow through on his campaign pledge to wage war on corruption.

Viva J-Lo!

¹ It is a matter of public record that Isabel dos Santos' major stakes in such names as GALP (oil and gas - Portugal); BCP (banking – Portugal); and De Grisogno (luxury jewelry – Switzerland), are held through a web of special purpose companies.

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